

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**



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Order Instituting Rulemaking Concerning
Energy Efficiency Rolling Portfolios,
Policies, Programs, Evaluation, and
Related Issues.

Rulemaking 13-11-005
(Filed November 14, 2013)

**OPENING COMMENTS OF SOUTHERN CALIFORNIA GAS COMPANY
(U 904 G) ON RULING OF ASSIGNED COMMISSIONER AND
ADMINISTRATIVE LAW JUDGE SEEKING INPUT ON APPROACHES
FOR STATEWIDE AND THIRD-PARTY PROGRAMS**

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I.

INTRODUCTION

Pursuant to the May 24, 2016 *Ruling of Assigned Commissioner and Administrative Law Judge Seeking Input on Approaches for Statewide and Third-Party Programs* (Ruling), Southern California Gas Company (SoCalGas) hereby submits its opening comments to the California Public Utilities Commission (Commission) on potential program delivery changes to statewide and third-party energy efficiency (EE) offerings and the corresponding questions presented in Section 3 of the Ruling.

II.

SUMMARY OF SOCALGAS' POSITION

A. Background

The Ruling provides a Proposal that, in part, attempts to respond to the mandates in Senate Bill (SB) 350 that requires a cumulative doubling of statewide EE savings, both electric and natural gas, by January 1, 2030. The Proposal is also in response to workshops conducted on March 23 and 24, 2015 and subsequent comments filed by parties on April 13, 2015. The Ruling seeks input on whether additional guidance from the Commission would be helpful or desirable in advance of the submission of EE business plans by program administrators (PAs), as contemplated in Decision (D.) 15-10-028. Specifically, the Ruling seeks input on whether to

implement some or all aspects of the Proposal regarding statewide and third-party EE programs. Lastly, the Ruling seeks comments on the Proposal presented as part of the ongoing California Energy Efficiency Coordinating Committee discussions.

SoCalGas can conditionally support changes to both statewide and third-party EE programs; but, offers specific refinements and clarifications to the Proposal in order to make it more effective in reaching EE goals. Most importantly, the Proposal needs to reconfirm and keep intact the current administrative structure including the administrator's responsibility of program choice and portfolio management for all Investor Owned Utilities (IOUs), as detailed by the Commission in D. 05-01-055. Based on current and past performance, the current administrative structure is well-positioned to meet the state's goal of doubling of EE by 2030. Wholesale changes to that structure would decrease that momentum and create confusion, especially on the part of the public, which we view as contrary to the Commission's intent. Other changes the Commission addresses in this proceeding, including clarification on EE baselines, will have a much greater impact in achieving the increased EE goals. As a result, SoCalGas is concerned that the Proposal's wholesale and immediate changes to an already successful EE structure are unwarranted, particularly given the lack of factual support in the Ruling for the premise that a single-implementer model is more effective or cost-efficient in a very large and diverse state with a large and multi-faceted economy like California.

In order to improve the Proposal, SoCalGas offers additional refinements and clarifications that: (1) build upon the success of the current administrative structure; (2) maintain the appropriate balance of responsibilities among administrator, implementer, and regulator; (3) improve innovation and significantly increase the outsourcing opportunities for all EE service providers; and (4) embrace the market sector approach recently adopted by the Commission.¹ SoCalGas offers specific recommendations for the Proposal along with responses to questions presented in the Ruling below.

B. Uniqueness of SoCalGas

Before addressing the Proposal in detail, it is important to understand the perspective held by SoCalGas regarding its proposed changes. SoCalGas is the only large, single fuel natural gas utility in the state. Moving towards statewide program implementation could easily result in a

¹ D.15-10-028, p. 47.

decreased focus on the importance of natural gas EE in deference to electric EE, which constitutes a far greater portion of the state's overall EE budget. IOUs have a responsibility to serve the interest of their ratepayers within its service territory. As such, SoCalGas has consistently delivered EE programs that have produced the largest natural gas energy savings in the state each of the last ten years. SoCalGas' performance is significant and impactful. Since 1990, SoCalGas has successfully partnered with its customers to deliver over 585 million therms. In the past five years alone, SoCalGas has delivered over 148 million therms in energy savings, enough to power over 297,000 households a year, and reducing greenhouse gas by about 787,000 metric tons, the equivalent of removing over 165,700 cars from the road. Considerable customer value is derived under SoCalGas' EE portfolio management, as over that same term, the energy savings have generated nearly \$668 million of avoided energy costs, including approximately \$184 million in customer annual bill savings.

SoCalGas' proven track record in portfolio program management is tied directly to identifying and addressing its customers' energy requirements. As a result, SoCalGas leverages its unique relationships with electric and water utilities, both Commission regulated and publicly owned to develop strategic partnerships, which allow for a greater scope and scale of EE programs, to the benefit of all customers. Examples of this include the collaborative relationships that SoCalGas has entered into with key municipal-owned utilities (MOUs) such as the Los Angeles Department of Water and Power (the largest MOU in the country), Anaheim Public Utilities, Pasadena Water and Power, Riverside Public Utilities, and Burbank Water and Power. In addition, SoCalGas has developed strong programmatic relationships with the Metropolitan Water District and the South Coast Air Quality Management District (SCAQMD). Through these partnerships, SoCalGas has fostered a greater bandwidth to the programs than would otherwise be possible by leveraging funds and resources, and combining offerings which results in a larger growth of program participation. SoCalGas has been and continues to be best positioned to deliver its EE programs in the Integrated Demand-Side Management (IDSM) context in its service territory given the extensive and successful programmatic relationship with the MOUs and agencies referenced above.

SoCalGas has also developed its relationship with its customers, by identifying customer energy needs and creating customized integrated solutions of all demand-side opportunities – not just EE. Information gathered during program years 2013–2014 illustrates that SoCalGas is

viewed by customers as their primary energy advisor, is trusted to effectively administer EE programs and provide innovative energy-related solutions, and as the expert in energy efficiency in Southern California.²

III.

RESPONSE TO PROPOSAL PRESENTED IN RULING

A. SoCalGas Supports Statewide Approach That Maintains IOU Program Choice And Oversight

The Proposal seeks to modify the current administrative structure by requiring a significant change in the contractual relationship between an administrator and implementer by removing all but one IOU from conducting the solicitation, choosing an implementer, and contracting with the implementer on behalf of itself and the other three IOUs. This Proposal significantly alters the current EE administrative structure by proposing the IOUs transfer program choice for their customers and, by extension, portfolio management responsibilities, to another IOU. SoCalGas does not support this aspect of the Proposal as it severs the vital linkage between the administrator's program management responsibilities and program choice. Similar to the IOUs supply-side procurement responsibilities, the Commission has determined the IOUs are best suited for both program management and program choice to enable the IOUs to meet the responsibilities they have been assigned by both the Legislature and the Commission to procure demand-side and supply-side resources to meet Energy Action Plan goals.³

The Commission is currently looking into Distributed Energy Resources (DERs) to address utility procurement needs as part of Rulemaking (R.) 14-10-003. The engagement occurring in that proceeding emphasizes the importance of localized DERs, the successful deployment of which will require an even greater level of informed, knowledgeable local coordination between utility procurement, DER, and demand-side management resources including local and statewide EE programs. In order to *effectively and efficiently* integrate DERs into the system, the collaboration must occur locally with the utility service territory. The Proposal's shift of specific, localized IOU decision-making on program implementation to another, non-local-IOU seems to be out of step with the Commission emphasis on localized

² Customer Insight Panel Energy Efficiency Profile Report, conducted by SoCalGas, March 2016.

³ D.05-01-055, p. 89.

DERs and will unnecessarily hinder the local coordination of needed resources within an IOU's service territory.

The Proposal creates a definitional change that will allow IOU administrators to take on more of an oversight and verification role including selecting bidders, designing uniform procurement and sourcing mechanisms, sharing best practices on program design, marketing and delivery for guiding program bidders, and evolving program strategies over time in lieu of program delivery.⁴ However, the Proposal fails to recognize that these responsibilities and much more, are currently required of and exercised quite effectively by the IOUs. Moreover, the Proposal fails to indicate how removing individual IOUs from program design, procurement selection, and selective IOU program delivery will actually meet the stated objectives. SoCalGas submits that these objectives are presently being successfully met by the current administrative structure.

As for the responsibilities of the lead utility, SoCalGas supports, on a trial or pilot basis, having a lead IOU facilitate a statewide program solicitation and administer contracts on behalf of the other PAs as long as individual IOU program choice remains intact. However, SoCalGas recommends revisiting the current IOU lead assignments, as they were made several years ago with a much different scope of responsibility (i.e., to simplify and facilitate inter-utility coordination).⁵

The Proposal also suggests that the Commission's Energy Division (Commission staff) reconcile program expenditures among IOUs no sooner than every five years. SoCalGas sees real challenges here, and recommends the Commission not shift such administrator responsibilities to the regulator, in the best interest of all stakeholders. The Commission is a regulatory agency tasked with independent oversight the IOU's decisions concerning expenditure of ratepayer funds and, as such, it is not appropriate to assign Commission staff with administrative responsibilities which require such program budgeting and decision making.⁶ The Proposal would shift, in essence, the responsibility of program expenditure tracking and reporting from the administrator to the regulator (or its surrogate). As fiscal agents, IOUs have the fiduciary responsibility to oversee, track, and report financial expenditures on a timely basis

⁴ Ruling, p. 10.

⁵ D.09-09-047, Footnote 53, pp. 105-106.

⁶ D.05-01-055, pp. 57-58.

consistent with all regulatory requirements.⁷ The proposed process would not allow the IOUs to comply with such regulatory requirements and laws nor do so in a timely manner.

B. SoCalGas Offers Modifications To Proposed Statewide And Third-Party Definitions

1. Statewide

The Ruling recommends a new statewide program definition in order to establish one consistent definition or approach.⁸ However, the Commission already has a definition of “statewide” that meets the intended need. In order to ensure statewide consistency, the Commission, in D. 11-04-005, clarified that IOUs are to coordinate statewide programs in a number of ways including:

“Pacific Gas and Electric Company, Southern California Edison Company, San Diego Gas & Electric Company, and Southern California Gas Company shall ensure statewide utility energy efficiency offerings are coordinated (i.e., very similar or the same) across a number of areas, including: a) program name; b) incentive levels offered; c) delivery mechanisms; d) marketing materials; e) regular inter-utility coordination; f) on-going review and adoption of best practices and feed-back from program evaluations across the utilities; and g) intra-utility coordinated actions with state, local and federal agencies and other key actors.”⁹

The current Commission-adopted statewide definition also recognizes the need for small variations to address local IOU service territory needs. Specifically, D.11-04-005 clarified: “It is reasonable to allow small variations to statewide programs to fit the needs of different IOU territories, as long as these variations are generally consistent with the intent and design of the statewide programs.”¹⁰ Thus the current Commission-adopted statewide definition promotes both industry best practices and economies of scale afforded by statewide program offerings while recognizing the importance of local considerations within an IOU service territory.

SoCalGas has several concerns with the Proposal’s statewide definition and does not support its adoption without modification. First and foremost, the proposed definition would significantly change the current Commission administrative structure by shifting program design responsibilities to the program implementer. SoCalGas supports and encourages third-party

⁷ *Id.* Ordering Paragraph 1.

⁸ Ruling, p. 2.

⁹ OPN 3, p. 20.

¹⁰ p.15.

program design proposals for PA consideration, but not independent of the PA's program choice responsibilities. Also, the requirement for a single lead implementer works against the notion to promote a healthy and vibrant EE provider community as only a few, very large EE providers would be able to deliver on such a large statewide scale. Most intriguing is the lack of credible support, i.e. proof, for the premise that a single-implementer model is more effective or cost-efficient in a very large and multi-faceted economy like California. The two states that have adopted such an approach¹¹ represent much smaller and less diverse and dynamic economies, geographical areas and populations than California.¹²

Nevertheless, if the Commission ultimately revises the statewide program definition, then SoCalGas recommends the following modifications to the Ruling's proposed definition:

- (1) apply only to certain programs directed at upstream or midstream market channels;¹³
- (2) allow for program enhancements to meet local issues (e.g., grid reliability concerns, climate, socioeconomic conditions, etc.); (3) make accommodations for more than one implementer including IOU delivery, if appropriate; and (4) recognize that all EE programs are designed to focus on the market adoption of technologies, processes, or building design until they are adopted into code.¹⁴ Specifically, SoCalGas offers the following modifications to the proposed statewide definition:

“Statewide ***Implemented Program*** means: A program that is designed to be delivered uniformly throughout the four large Investor-Owned Utility service territories ***generally*** by a single

¹¹ Hawaii and Wisconsin have implemented competitively-solicited third-party implementer models. Energy Efficiency Program Administration: Options and Issues, Lawrence Berkeley National Laboratory, March 24, 2015.

¹² Hawaii and Wisconsin's population are approximately 1.4 million and population 5.8 million, respectively. In contrast, California's population is 39.1 million. 2015 Population Estimates, United States Census Bureau.

¹³ SoCalGas does not consider program strategies directed at the builder communities as upstream programs. There are very few market actors that conduct business throughout California in either the nonresidential and residential new construction markets. As a result, new construction programs are not well suited for a single implementer model. SoCalGas suggests a continuation of the current Commission statewide definition in both the residential and nonresidential new construction markets.

¹⁴ D.09-09-047, pp. 88-89. “Market transformation is long-lasting, sustainable changes in the structure or functioning of a market achieved by reducing barriers to the adoption of energy efficiency measures to the point where continuation of the same publicly-funded intervention is no longer appropriate in that specific market. Market transformation includes promoting one set of efficient technologies, processes or building design approaches until they are adopted into codes and standards (or otherwise substantially adopted by the market), while also moving forward to bring the next generation of even more efficient technologies, processes or design solutions to the market.”

lead program implementer under contract to a single lead program administrator, *where reasonable*. ~~Local or regional~~ Variations in incentive levels or measure eligibility *or delivery* are ~~not generally~~ permissible *to address local and/or regional concerns* (~~except possibly for measures that are weather dependent e.g., system reliability, climate, socioeconomic conditions, etc.)~~ and *but* the customer interface/experience should *strive to be consistent* ~~identical regardless of~~ *among* geographic locations. Statewide efforts are ~~generally~~ targeted upstream (at the manufacturer level) ~~or midstream (at the distributor or retailer level).~~”, ~~though they may include downstream approaches in some markets. They are also mainly designed to achieve market transformation and/or aimed at delivering new construction and cross-cutting (cross-sector) programs.”~~

2. Third-Party Programs

The Proposal changes the current third-party program definition to a program proposed, designed, implemented, and delivered by non-utility personnel under contract to a utility PA.¹⁵ The Proposal suggests that the new definition will improve innovation, effectiveness, cost reduction, and/or cost-effectiveness, but is lacking in objective facts to support this conclusion. SoCalGas supports a change to the current third-party definition but does not believe the Proposal’s definition supports the stated objectives. The current administrative structure has proven immensely successful in the areas of program innovation, performance, and/or cost-effectiveness. The proposed definition also suggests moving program design away from the PA to the implementer, thus blurring the lines between administrator and implementer. As stated previously, SoCalGas supports and encourages third-party program design proposals for PA consideration, but not independent of the PA’s program choice responsibilities. SoCalGas generally supports third-party program delivery but recognizes that under certain circumstances, the IOU may be in a better position to deliver specific program elements. For example, utility account representatives are instrumental in the delivery of key EE programs and are vital to EE providers who seek access to utility customers. Thus SoCalGas recommends any revised definition allows for utility-delivered program elements.

In order to better capture all EE-funded activities performed by non-PA personnel, SoCalGas proposes to evolve the current third-party definition. In essence, SoCalGas’ proposed definition clearly and simply identifies what is outsourced. PAs are currently required to list all

¹⁵ Ruling, pp. 9-10.

competitively-bid third-party programs and to show the percentage of those program budgets to the overall portfolio budget as part of its funding application for Commission approval. Other program services delivered by third-parties do not fall within this current Commission definition. SoCalGas proposes a third-party definition that captures all activities conducted by non-PA personnel into two outsourcing categories: third-party program implementers (turnkey) and third-party service providers (implementation services). The two categories will allow the necessary oversight of third-party program performance while capturing all activities provided by non-PA personnel. Most importantly, the revised third-party definition also maintains the appropriate segregation between program design and implementation, as noted above.

C. SoCalGas Supports Pay-for-Performance Approach For EE Measured-Based Programs Consistent With SB 350

The Proposal prioritizes for pay-for-performance approaches for statewide program implementers in keeping with SB 350 requirements to authorize pay-for-performance programs. However, SB 350 specifically calls for pay-for-performance programs that tie incentives to measured energy savings.¹⁶ Since the Proposal's statewide definition indicates that upstream programs are generally candidates for statewide implementation, many of the Proposal's statewide programs could not have a pay-for-performance requirement as called out in SB 350. Programs delivered in the upstream market channels typically rely on deemed energy savings due to the mass market nature of the program's design. Also, smaller customer projects (small business, residential) do not benefit from measured performance periods as the small incentive amounts coupled with lower EE savings and make such an approach inefficient to administer. Thus the Proposal's application of pay-for-performance is at odds with the proposed statewide definition. Consequently, SoCalGas recommends the Commission encourage all programs, statewide implemented programs or otherwise, to offer pay-for-performance incentives linked directly with measured savings, consistent with SB 350, as applicable, and, most importantly, only if the pay-for-performance incentives do not deter parties from achieving greater levels of EE within the targeted customer market.

¹⁶ Section 399.4.d.2. "Authorize pay for performance programs that link incentives directly to measured energy savings. As part of pay for performance programs authorized by the commission, customers should be reasonably compensated for developing and implementing an energy efficiency plan, with a portion of their incentive reserved pending post project measurement results."

Ultimately, pay-for-performance tied directly to measured energy savings will require a significant change to the current Commission's Evaluation, Measurement & Verification (EM&V) approach but offers the promise of greatly simplifying the customer EE program experience.

D. Common Criteria Is Needed To Identify Statewide Programs

The Proposal suggests a list of possible statewide program candidates but does not offer any specific criteria used in the development of the program list. SoCalGas recommends the Commission adopt a standard set of criteria to determine statewide programs. A possible set of statewide program criteria could include: (1) a need for commonality across California; (2) presence of statewide market actors and decision-makers; (3) applicability to upstream market channels to achieve higher EE levels; (4) proven combinations of program strategy and market channel; and (5) demonstration of greater cost efficiency and program effectiveness than the current delivery mechanisms.

Also, SoCalGas notes that some program activities currently contained in a statewide program may be best suited for continued local delivery (e.g., ET demonstration projects with specific customers, reach codes, etc.). Nevertheless, any such program activities delivered locally should be closely coordinated with the relevant statewide program(s).

E. Any Single-Implementer Statewide Approach Must Promote California's Vibrant EE Service Industry

The Proposal offers to re-establish the current statewide program definition by requiring a single lead statewide program implementer. Over the past two decades, the IOUs and the Commission have created and nurtured a healthy and vibrant EE service provider industry in California. SoCalGas is very concerned that the single-implementer approach envisioned by the Proposal could unintentionally disrupt California's vibrant EE service provider ecosystem. The Proposal, as presented, creates opportunities for only the very large EE providers and leaves the balance of the industry struggling with smaller subcontractor arrangements with less frequent opportunities to grow their businesses and contribute to California's long-term EE goals. It is likely a one-implementer model would rely heavily upon an intricate network of subcontractors throughout California thus creating multiple delivery layers producing greater cost inefficiencies and reduced effectiveness while being less adaptable to change due to the numerous contractual

relationships. In essence, several smaller EE service providers will be forced out of the California market, consumed by larger providers, or moved to less desirable subcontractor roles similar to the consolidations that occurred in California's EM&V service industry in recent years.

Any proposed approach must address this very real concern and allow smaller providers a fair opportunity to bid on statewide programs and to contract directly with the IOUs. For example, a statewide program can include a "plus-one" implementer model that allows for smaller EE providers to deliver a statewide program to certain markets or regions and to contract directly with the lead IOU. This approach will help to maintain and grow the EE service provider community, promote the cost efficient program delivery, and improve program effectiveness while encouraging innovation from multiple EE providers.

F. SoCalGas Supports A Proposed Multi-year Deployment Of Statewide Programs Under The Commission's New Market Sector Program Structure

The Proposal implements a small subset of programs under the proposed statewide definition and structure in 2017, while transitioning new tranches of programs to statewide status over several years.¹⁷ As stated previously, SoCalGas is concerned there is no evidence that a single statewide program implementer model, as presented in the Proposal, can work more efficiently in California's very large and multi-faceted geography and economy.¹⁸ There are significant consequences for IOUs and California ratepayers if the proposed approach fails to be more efficient and effective in delivery of EE results than those currently being delivered. Nevertheless, SoCalGas, as an innovative EE leader, is willing to support launching and evaluating the model, on a program offering and time limited pilot basis, for specific program strategy and market channel combinations. Any such test must address the concerns presented by SoCalGas including maintaining independent program choice for the IOU.

In order to increase the likelihood of success and test the single implementer statewide approach, SoCalGas suggests a three-year pilot of the following program offerings and corresponding lead IOU facilitator: HVAC Equipment Incentives (San Diego Gas & Electric Company) and WE&T Connections (Pacific Gas and Electric Company). As part of the pilot,

¹⁷ Ruling, p. 4.

¹⁸ California's economy is the 8th largest in the world (GDP of \$2.3 trillion) and far larger than other states and regions in the U.S. Center for Continuing Study of the California Economy, July 2015.

the Commission should apply pilot evaluation criteria to help identify implementation issues and effectiveness. The pilot evaluation will also inform whether to extend the pilot implementers additional two years and will help in assessing other potential candidates for statewide implementation. SoCalGas recommends these program offerings be based on: (1) proven program design; (2) a small number of market actors and decision-makers; (3) delivery upstream of the customer; and (4) a common approach that can be applied throughout California. However, there may be certain program activities or regions that will be better served by other implementers and/or IOUs. Such implementation consideration should be addressed as part of the program solicitation process. If, ultimately, through evaluation, the statewide implementer model proves successful, SoCalGas may support a measured, broader implementation of other statewide program offerings that are upstream of the end-use customer.

SoCalGas also asserts that while some programs can be administered for statewide consistency, they cannot be done by a single PA on behalf of the other PAs due to other issues. For example, finance programs are tied to utility billing systems and are subject to other laws (i.e., lending laws) that are not under Commission jurisdiction. These programs do not fit a single PA model, and do not lend themselves to other purported efficiencies of having a single PA. Such examples suggest that much more careful consideration be made before proceeding with such an approach.

As for timing, the Ruling recommends a mid-2017 program launch of the statewide single implementer approach. SoCalGas believes a more realistic and practical pilot launch date is January 2018. The schedule needs to recognize the time required to develop a solicitation process, obtain Commission approval, conduct the solicitation, and execute contracts. The selected implementers will also need time to prepare for the pilot launch so a January 2018 target date seems more appropriate. Finally, in response to the Commission's recently adopted sector-based program approach,¹⁹ the delivery of statewide program offering should accommodate for unique differences among the market sectors including allowances for multiple statewide implementers of the same statewide program including IOU program delivery to improve the overall program effectiveness.

¹⁹ D.15-10-028, p.47.

G. SoCalGas Supports A Modified Option 1 Approach

The Ruling suggests two options in which to transition to the proposed statewide one-implementer model. SoCalGas does not support either Option 1 or 2, as presented in the Ruling. Instead, SoCalGas offers modifications and clarifications to Option 1 that: (1) retains the current administrative structure as it has proven to work and deliver on advancing California's energy policies over the past ten years; (2) eliminates the 20 percent third-party program requirement and replace with a simple straightforward third-party definition; (3) incorporates a requirement for more frequent procurement opportunities that encourages continued program innovation and expansion of the EE service provider community; and (4) recognizes the new sector and crosscutting program categories adopted as part of the EE rolling portfolio.

SoCalGas' modified Option 1 proposes to retain the Commission's current program choice and management responsibilities for the IOU administrators. Specifically, the IOUs would continue to make their own implementer selections for all local and statewide solicitations. The proposed modified option enables the statewide program delivery by a third-party program implementer, as envisioned by the Ruling, under the following framework that:

- Designates one lead IOU to facilitate a statewide program solicitation with shared scoring responsibilities with the other impacted PAs;
- Maintains the individual IOU program choice in selecting statewide program implementer(s);
- Offers annual solicitations for statewide programs to promote healthy, innovative EE service provider community beginning after Commission adoption of a statewide solicitation (e.g., 2018 statewide program launch);
- Creates standard statewide criteria for selecting program offerings for statewide deployment;
- Limits statewide implemented programs to upstream market channels;
- Maintains the current Commission-adopted statewide definition for downstream program offerings;
- Eliminates the 20% requirement and accounts for all non-PA provided program services;
- Incorporates the new sector and crosscutting program categories into the statewide solicitation process; and
- Allows for more than one implementer to deliver a statewide program and recognizes that certain program components (e.g., reach codes, customer technology

demonstration projects, etc.) within a statewide program may be better served through local delivery mechanisms.

IV.

QUESTIONS RELATED TO OVERALL REGULATORY FRAMEWORK FOR STATEWIDE AND THIRD-PARTY PROGRAMS

1. Should the Commission give additional guidance beyond the broad outlines in D.15-10-028 for the Rolling Portfolio Cycles and Sector Business Plans to the program administrators in the areas of statewide and third-party programs prior to submission of the Sector Business Plans in late 2016? Or would it be preferable to have the Commission wait to evaluate proposals brought forward in the Business Plans by the program administrators? Explain in detail the rationale for your preferred approach.

Response: No further Commission guidance is necessary beyond the direction provided in D.15-10-028 regarding statewide and third-party programs prior to the program administrator's submission of the upcoming energy efficiency business plans. As the Commission clearly articulated in D.15-10-028: "Business plans will explain at a relatively high level of generality how PAs will effectuate the strategic plan."²⁰ Simply put the business plans create a link between the EE Strategic Plan and the implementation plan. The business plan offers a high level of abstraction on how PAs will achieve the goals including how each sector in the business plan advances the goals, strategies and objectives of the strategic plan and an identification of sector-specific program strategies. However, the business plan purposely does not address program implementation matters such as program implementer preferences as these tactical program matters will be addressed in the detailed implementation plans. After final Commission approval of the business plans, the Commission can provide additional direction regarding potential changes to the administrator and/or implementer functions in Phase III of this proceeding.

2. If you prefer the Commission to give guidance prior to the submission of Business Plans, what level of guidance should be given? Explain in detail.

Response: SoCalGas prefers no further Commission guidance prior to the submission of the business plans in the areas of statewide and third-party programs. See SoCalGas' response to Question 1.

²⁰ Footnote 85 of D.15-10-028 states: "As discussed below, we are redefining sectors versus those in the 2011/2008 Strategic Plan. Hence we are not directing here that the business plans precisely track the strategic plans sectors."

3. How should any Commission requirements for statewide and/or third-party approaches apply to non-utility program administrators (e.g., community choice aggregators (CCAs), CAEATFA, the Regional Energy Networks (RENs), CSE, etc.)?

Response: The Commission has required the RENs and CCAs administrative structures comply with the same regulatory requirements as the IOUs.²¹ There should be no change to this policy regardless of whether the Commission ultimately adopts the Ruling's Proposal, with or without modification. SoCalGas proposed modifications to the statewide definition and approach would look to statewide program offerings that are delivered upstream of the customer (and their contractors). The current REN and CCA program portfolios and the proposed CAEATFA do not offer such upstream programs. Therefore, if the Commission directs the IOUs to select and administer a single statewide implementer for upstream programs, then these statewide programs should not be added to other PA program portfolios.

4. What type of showing should the Commission require for any Business Plan proposal that addresses statewide and/or third-party approaches? (e.g., rationale, program logic model, relationship to other parts of the portfolio, definition of designer/implementer/evaluator, proportion of the budget, bid solicitation protocols, etc.). Describe in detail.

Response: No additional showing is necessary as part of the business plan applications to address statewide and/or third-party approaches. These are tactical program implementation matters that will be addressed in the detailed implementation plans after the Commission has approved the EE business plans. See SoCalGas' response to Question 1 and 2.

5. Are there aspects of the current statewide programs approach that are effective and should be continued? Explain.

Response: Based on current and past performance, the current statewide approach is well-positioned to meet the state's goal of doubling of EE by 2030. SoCalGas does not believe changes to the statewide implementation are needed. If changes, however, are made to the statewide program approach, then, the Commission needs to retain the current administrative structure including the administrator's responsibility of program choice and portfolio management for each individual IOU, as detailed by the Commission in D.05-01-055. The program choice simply cannot be transferred to another administrator, IOU or otherwise.

²¹ D.12-11-015, OPN 2, p. 130.

Additionally, the current statewide definition as detailed in D.11-04-005, should be retained for statewide downstream program offerings and statewide upstream market channel programs that are not suited or have not transitioned to a single implementer approach. Also, the administrators should retain the flexibility to address local concerns and/or improve program effectiveness through a local program implementer and/or to leverage implementation activities delivered by IOUs.

6. Are there aspects of the current third-party programs approach that are effective and should be continued? Explain.

Response: SoCalGas supports a framework that allows PAs to solicit, contract, and directly manage third-party programs, on a continuous or rolling basis. The IDEEA365 framework established in 2013 provides for continuous opportunities to incorporate innovation into the program portfolio in coordination with other programs. IDEEA365 has matured, under the IOU administration, through meaningful enhancements that have been identified and implemented during its evolution.

SoCalGas supports continuation of IDEEA365 as one basis for encouraging innovative third-party programs and is committed to continuing meaningful enhancements including increasing the initial size and breadth of IDEEA365 third-party programs to have a larger impact on the market and afford third-parties greater opportunity to innovate.

In support of the rolling portfolio approach, SoCalGas is committed to refreshing mature programs on a continuous basis to encourage creative and efficient program design and delivery. A healthy, large, and diverse EE service provider community allows the PAs to effectively manage and deliver cost effective program portfolios to its customers. SoCalGas proposes to continue annual solicitations, with enhancements, for all other programs, staggered over a five-year period to allow solicitation opportunities for five-year contracts (three-year contracts with an opportunity to extend two additional years) for the EE service provider industry.

7. How should the Senate Bill 350 requirements for market transformation programs and pay-for-performance programs factor in to our policies for statewide and third-party programs?

Response: SB 350 specifically calls for pay-for-performance programs that tie incentives to measured energy savings.²² The program strategy (e.g., deemed incentives, financing, calculated incentives, etc.) in combination with the market channel entrance point (i.e., downstream, midstream, upstream) and the customer-specific energy savings potential will dictate whether a pay-for-performance program tied to onsite measured energy savings is appropriate. The delivery provider (i.e., PA or non-PA) and the span of deployment (i.e., statewide or local) are minor considerations, if at all, in the PAs program decision to proceed with a pay-for-performance arrangement tied to onsite measured energy savings.

Programs delivered in the upstream market channels typically rely on deemed energy savings due to the program's mass market deployment. Customer (small business, residential) projects with smaller energy savings potential do not benefit from measured performance periods as the small incentive amounts coupled with these lower energy savings make such an approach inefficient to deliver. SoCalGas recommends the Commission encourage all programs with higher project energy savings opportunities (e.g., medium/large commercial and industrial), regardless of delivery provider (i.e., PA, non-PA) or span of deployment (i.e., statewide or local), to consider pay-for-performance arrangements with performance periods based on measured savings. However, midstream, upstream and programs that offer small energy savings opportunities for individual customers should not be considered candidates.

SB 350 also calls funding market transformation as a way to achieve deeper energy savings.²³ Overtime, the Commission has evolved the market transformation definition to focus on the market adoption of technologies, processes or building design until they are adopted into code.²⁴ Nearly all energy efficiency program designs fit within the market transformation

²² Section 399.4.d.2. "Authorize pay for performance programs that link incentives directly to measured energy savings. As part of pay for performance programs authorized by the commission, customers should be reasonably compensated for developing and implementing an energy efficiency plan, with a portion of their incentive reserved pending post project measurement results."

²³ Section 399.4.d.1. "Authorize market transformation programs with appropriate levels of funding to achieve deeper energy efficiency savings."

²⁴ D.09-09-047, pp. 88-89. "Market transformation is long-lasting, sustainable changes in the structure or functioning of a market achieved by reducing barriers to the adoption of energy efficiency measures to the point where continuation of the same publicly-funded intervention is no longer

including downstream incentives that promote market adoption of EE technologies. SB 350 is simply recognizing the need to increase investment, where necessary, to capture greater energy efficiency levels.

Ultimately, the SB 350 aggressive goal to double EE levels in California by 2030 relies solely on the customer's decision to invest in EE. To that end, other program strategies (e.g., deemed or calculated incentives with no performance period) should be offered alongside pay-for-performance offerings for the customer's consideration. Regardless of what program is offered the program transaction for the customer must be simple with low to no customer transactional costs to participate in the program.

V.

QUESTIONS RELATED TO THE PROPOSALS/OPTIONS OUTLINED IN THIS RULING

A. Statewide Programs

8. Is the general outline of the proposal in this ruling for statewide programs workable? Why or why not? Explain.

Response: SoCalGas does not believe the outline of the Ruling's proposal for statewide programs is workable, as presented. The Proposal seeks to modify the current administrative structure by requiring that statewide program implementers are selected by one lead IOU on behalf other IOUs.²⁵ The Proposal significantly changes the contractual relationship between an administrator and implementer by removing all but one IOU from conducting the solicitation, choosing an implementer, and contracting with the implementer on behalf of the other three IOUs. This proposal significantly changes the current EE administrative structure by proposing the IOUs transfer program choice and, by extension, portfolio management responsibilities to another PA. SoCalGas does not support this proposal as it severs the vital linkage between the administrator's program management responsibilities and program choice. Similar to the IOUs supply-side procurement responsibilities, the Commission has determined the IOUs are best suited for both program management and program choice to enable for IOUs to meet the

appropriate in that specific market. Market transformation includes promoting one set of efficient technologies, processes or building design approaches until they are adopted into codes and standards (or otherwise substantially adopted by the market), while also moving forward to bring the next generation of even more efficient technologies, processes or design solutions to the market."

²⁵ Ruling, p. 7.

responsibilities they have been assigned by both the Legislature and the Commission to procure demand-side and supply-side resources to meet Energy Action Plan goals.²⁶

9. Do you agree with the proposed definition of “statewide” given in this ruling? Why or why not?

Response: SoCalGas does not agree with the proposed statewide program definition as presented. The Ruling recommends a new statewide program definition in order to establish one consistent definition or approach. However, the Commission currently has one consistent statewide definition. In order to ensure statewide consistency, the Commission, in D.11-04-005, directed IOUs to coordinate statewide programs in a number of ways including:

“...1) program name, b) incentive levels offered, c) delivery mechanisms, d) marketing materials, e) regular inter-utility coordination, f) ongoing review and adoption of best practices and feedback from program evaluations across the utilities, and g) intra-utility coordinated actions with state, local and federal agencies and other key actors.” D.11-04-005 also recognized the need: “...to allow small variations to statewide programs to fit the needs of different IOU territories, as long as these variations are generally consistent with the intent and design of the statewide programs.”

This Commission-adopted statewide definition promotes both industry best practices and economies of scale afforded by statewide program offerings while recognizing the importance of local considerations within an IOU service territory.

SoCalGas has several concerns with the proposed statewide definition and does not support its adoption without modification. First and foremost, the proposed definition would significantly change the current Commission administrative structure by shifting program design responsibilities to the program implementer. SoCalGas supports and encourages third-party program design proposals for PA consideration, but not independent of the PA’s program choice responsibilities. Also, the requirement for a single lead implementer works against the notion to promote a healthy and vibrant EE provider community as only a few, very large EE providers would be able to deliver on such a large statewide scale. Most intriguing is the lack of evidentiary support, i.e., facts, for the premise that a single-implementer model is more effective

²⁶ D.05-01-055, p. 89.

or cost-efficient in a very large and multi-faceted economy like California. The few states that have adopted such an approach represent much smaller economies.

Nevertheless, if the Commission ultimately revises the statewide program definition, then SoCalGas recommends the following modifications to the Ruling's proposed definition:

(1) apply only to certain programs directed at upstream or midstream market channels; (2) allow for program enhancements to meet local issues (e.g., grid reliability concerns, climate, socioeconomic conditions, etc.); (3) make accommodations for more than one implementer including IOU delivery, if appropriate; and (4) recognize that all programs are designed to bring market to code and/or transform market behaviors. Specifically, SoCalGas offers the following limited modifications to the proposed statewide definition:

“Statewide **Implemented Program** means: A program that is designed to be delivered uniformly throughout the four large Investor-Owned Utility service territories **generally** by a single lead program implementer under contract to a single lead program administrator, **where reasonable**. ~~Local or regional~~ Variations in incentive levels or measure eligibility **or delivery** are ~~not generally~~ permissible **to address local and/or regional concerns** (except possibly for measures that are weather dependent ~~e.g., system reliability, climate, socioeconomic conditions, etc.~~) ~~and but~~ the customer interface/experience should **strive to be consistent** ~~identical regardless of~~ **among** geographic locations. Statewide efforts are ~~generally~~ targeted upstream (at the manufacturer level) ~~or midstream (at the distributor or retailer level).~~”, ~~though they may include downstream approaches in some markets. They are also mainly designed to achieve market transformation and/or aimed at delivering new construction and cross-cutting (cross-sector) programs.~~”

10. Are there specific actions that should be taken to collaborate with the California Energy Commission (regarding its Existing Buildings Energy Efficiency Action Plan) and/or with the publicly-owned utilities to further advance the idea of truly statewide programs?

Response: The goal is to achieve a doubling of EE in California by 2030 not to implement a statewide program among IOU and publically-owned utilities (POU) service territories. Sharing of best program design and practices among IOUs and POUs should be encouraged and supported but identical program design with the same implementer is unnecessary as it will discourage innovation and experimentation in delivery of effective, efficient EE programs. The market sectors throughout California do not act in the same manner

so unique programmatic solutions are necessary to respond timely and appropriately to these specific market dynamics. Nevertheless, sharing of best practices and coordination on California energy policies, collaboration with statewide market actors (e.g., equipment manufacturers) and sharing of best practices among all IOUs, POUs, and other PAs as well as regional collaboration is important and should be encouraged, where feasible.

- 11.** Should the current IOU lead administrators for the statewide program areas remain the same or be changed?

Response: SoCalGas does not agree with the proposal to shift individual administrator program choice responsibility to another PA. SoCalGas does not support this proposal to shift the individual IOU's program choice responsibilities to another PA as it severs the vital linkage between the administrator's program management responsibilities and program choice. Similar to the IOUs supply-side procurement responsibilities, the Commission has determined the IOUs are best suited for both program management and program choice to enable for IOUs to meet the responsibilities they have been assigned by both the Legislature and the Commission to procure demand-side and supply-side resources to meet Energy Action Plan goals.²⁷

As for the responsibilities of the lead utility, SoCalGas supports, on a limited trial basis as set out above, having a lead IOU facilitate a statewide program solicitation and administer contracts on behalf of other PAs as long as individual PA program choice remains intact. However, SoCalGas recommends revisiting the current IOU lead assignments as they were made several years ago with a much different scope of responsibility (i.e., statewide meeting facilitation for IOUs).

- 12.** How should community choice aggregator and regional energy network areas be handled, and what should be the role of those entities with respect to interactions with statewide programs?

Response: SoCalGas proposed modifications to the statewide definition and approach would look to statewide program offerings that are delivered upstream of the customer (and their contractors). The current REN and CCA program portfolios do not offer such upstream programs. Therefore, if the Commission directs the IOUs to select and administer a single statewide implementer for upstream programs, then these statewide programs should not be added to other PA program portfolios. However, the IOUs and RENs/CCAs should continue

²⁷ D.05-01-055, p. 89.

their collaboration on program implementation to improve each of the PA's portfolio effectiveness in achieving higher levels of EE.

13. Are there programs, subprograms, or other functions that should be added or removed from the list of statewide programs to be assigned for non-utility competitively-bid implementation contracts? Be specific and provide your rationale.

Response: The Proposal suggests a list of possible statewide program candidates for single implementer approach but does not offer any specific criteria to be used in the development of the program list. If the Commission ultimately adopts a single implementer approach, SoCalGas recommends the Commission adopt a standard set of criteria to determine statewide programs. A possible set of statewide program criteria should include: (1) a need for commonality across California; (2) presence of statewide market actors and decision-makers; (3) applicability to upstream market channels to achieve higher EE levels; (4) proven combinations of program strategy and market channel; and (5) demonstration of greater cost efficiency and program effectiveness than the current delivery mechanisms.

SoCalGas offers revision to the Ruling's proposed statewide definition as follows:

"Statewide **Implemented Program** means: A program that is designed to be delivered uniformly throughout the four large Investor-Owned Utility service territories **generally** by a single lead program implementer under contract to a single lead program administrator, **where reasonable**. ~~Local or regional~~ Variations in incentive levels or measure eligibility **or delivery** are ~~not generally~~ permissible **to address local and/or regional concerns** (except possibly for measures that are weather dependent **e.g., system reliability, climate, socioeconomic conditions, etc.**) **and but** the customer interface/experience should **strive to be consistent** ~~identical regardless of~~ **among** geographic locations. Statewide efforts are ~~generally~~ targeted upstream (at the manufacturer level) ~~or midstream (at the distributor or retailer level).~~, though they may include downstream approaches in some markets. They are also mainly designed to achieve market transformation and/or aimed at delivering new construction and cross-cutting (cross-sector) programs."

Under this revised definition, all programs delivered to the downstream market channel, including new construction programs, should be removed from consideration of a one-implementer approach as there is no foreseen programmatic benefit.

Also, SoCalGas notes that some program activities currently contained in a statewide program may be best suited for continued local delivery (e.g., ET demonstration projects with specific customers, reach codes, etc.). Nevertheless, any such program activities delivered locally should be closely coordinated with the relevant statewide program(s).

14. Should the treatment of programs and subprograms as statewide be phased in? Why or why not? If yes, which subprograms should we start with and over what period of time should others be phased in?

Response: The Ruling suggests implementing a small subset of programs under the proposed statewide definition and structure in 2017, while transitioning new tranches of programs to statewide status over several years.²⁸ As stated previously, SoCalGas is very concerned there is no credible objective evidence that a single statewide program implementer model, as presented in the Ruling, can work more efficiently in California's very large and multi-faceted economy.²⁹ There are significant negative consequences for the IOUs and California ratepayers if the proposed approach fails to be more efficient and effective. Nevertheless, SoCalGas, as an innovative EE leader, is willing to support launching and evaluating the model, on a limited basis, for specific program strategy and upstream market channel combinations. Any such test must address the concerns presented by SoCalGas including maintaining independent program choice for the IOU.

In order to increase the likelihood of success and test the single implementer statewide approach, SoCalGas suggests a three-year pilot of the following program offerings and corresponding lead IOU facilitator: HVAC Equipment Incentives (San Diego Gas & Electric Company) and WE&T Connections (Pacific Gas & Electric Company). As part of the pilot, the Commission should apply pilot evaluation criteria to help identify implementation issues and effectiveness. The pilot evaluation will also inform whether to extend the pilot implementers another two years and will help in assessing other potential candidates for statewide implementation. SoCalGas recommends these program offerings based on: proven program design; a small number of market actors and decision-makers; delivery upstream of the customer; and a common approach that can be applied throughout California. However, there may be certain program activities or regions that will be better served by other implementers

²⁸ Ruling, p. 4.

²⁹ California's economy is the 8th largest in the world (GDP of \$2.3 trillion and far larger than other states and regions in the U.S. Center For Continuing Study of the California Economy, July 2015.

and/or IOUs. Such implementation consideration should be addressed as part of the program solicitation process. If, ultimately, through evaluation, the statewide implementer model proves successful, SoCalGas may support a measured, broader implementation of other statewide program offerings that are upstream of the end-use customer.

As for timing, the Ruling recommends a mid-2017 program launch of the statewide single implementer approach. SoCalGas believes a more realistic and practical pilot launch date is January 2018. The schedule needs to recognize the significant amount of time required to develop a solicitation process, obtain Commission approval, conduct the solicitation, and execute contracts. The selected implementers will also need time to prepare for the pilot launch so a January 2018 target date seems more appropriate, albeit aggressive. Finally, in response to the Commission's recently adopted sector-based program approach,³⁰ the delivery of statewide program offering should accommodate for unique differences among the market sectors including allowances for multiple statewide implementers of the same statewide program including IOU program delivery to improve the overall program effectiveness.

15. Do you agree with the proposal contained in this ruling with respect to budget sharing for statewide programs? Why or why not?

Response: SoCalGas does not agree with the Ruling's proposal to apply pre-set budget allocations that do not recognize actual cost incurred by IOU service territory. The Public Utilities Code requires that gas Public Purpose Program (PPP) surcharge and/or electric procurement funds must be spent to deliver energy efficiency benefits to ratepayers in the service territory *from which the funds were collected*.³¹ SoCalGas supports preset allocation schemes for shared program expenditures among IOU service territories. However, when costs can be directly tied to program activities (e.g., point-of-sale products delivered and sold at specific retail store locations) within a specific IOU service territory, then these costs should be reconciled as part of the program implementer's monthly invoicing requirements.

The Proposal also suggests that the Commission staff reconcile program expenditures among IOUs no sooner than every five years. SoCalGas cannot support shifting such

³⁰ D.15-10-028, p. 47.

³¹ Pursuant to § 381, 381.1, 399 and 890-900, gas PPP surcharge and/or electric procurement funds must be spent to deliver energy efficiency benefits to ratepayers in the service territory from which the funds were collected. Energy Efficiency Policy Manual, Version 5, dated July 2013, p. 9.

administrator responsibilities to the regulator. The Commission is a regulatory agency tasked, among other things, with independent oversight of the IOUs expenditure of ratepayer funds and, as such, it is not appropriate to assign Commission staff with administrative responsibilities.³² The Proposal would shift, in essence, the responsibility of program expenditure tracking and reporting from the administrator to the regulator (or its surrogate). IOUs have the public utility duty to oversee, track and report financial expenditures on a timely basis consistent with all regulatory requirements, both state and federal. The proposed process would not allow the IOU to either comply with such regulatory requirements and statutes or do so in a timely manner.

- 16.** Should there be any guidelines or limitations on the extent to which non-lead administrators (including other utilities, CCAs, or Regional Energy Networks) could incur expenses to coordinate, monitor, and/or otherwise engage with statewide programs?

Response: No additional guidelines are required to maintain the current administrative structure that includes the responsibilities of program management and program choice held by the PAs. The Commission's EE policies (e.g., portfolio cost effectiveness, statewide guidelines, etc.) provide adequate ratepayer protection from over or underspending in support of the program portfolio. However, the proposed one statewide implementer approach does not reduce costs rather the proposal causes costs to shift from the vendor to the PAs. For example, PAs will now incur additional costs to reconcile single statewide invoice costs among service territories each month to comply with P.U. Codes to § 381, 381.1, 399 and 890-900. At a minimum, a one statewide implementer approach needs to develop the intricate program administrative processes among and within IOUs to support a process complies with all applicable state and federal laws and regulatory mandates. It is unknown, at this time, the costs for these new control processes so the Commission should not impose limitations beyond the current policies that afford adequate ratepayer protection.

- 17.** Do you agree with the idea of encouraging pay-for-performance elements in the contracts for selected statewide program implementers? Why or why not?

Response: The Ruling proposes a priority for pay-for-performance approaches for statewide program implementers in keeping with SB 350 requirements to authorize pay-for-performance programs. However, SB 350 specifically calls for pay-for-performance programs

³² D.05-01-055, pp. 57-58.

that tie incentives to measured energy savings.³³ Since the Proposal's statewide definition indicates that upstream programs are generally candidates for statewide implementation, many of Ruling's proposed statewide programs could not have a pay-for-performance requirement as called out in SB 350. Programs delivered in the upstream market channels typically rely on deemed energy savings due to the mass market nature of the program's design. Also, smaller customer projects (small business, residential) do not benefit from measured performance periods as the small incentive amounts coupled with lower EE savings make such an approach inefficient to administer. Thus the Ruling's desired application pay-for-performance is at odds with the proposed statewide definition. Therefore, SoCalGas recommends the Commission encourage all programs, not only statewide programs, to offer pay-for-performance incentives linked directly with measured savings, consistent with the SB 350, as applicable. Most importantly, pay-for-performance incentives must not deter a statewide program from achieving greater levels of EE within the targeted customer market.

Ultimately, pay-for-performance tied directly to measured energy savings will require a significant change to the current Commission's EM&V approach but offers the promise of greatly simplifying the customer EE program experience.

B. Third-Party Programs

18. Do you agree with the definition of "third-party" in this ruling? Why or why not?

Response: The Ruling proposes to change the current third-party program definition to a program proposed, designed, implemented, and delivered by non-utility personnel under contract to a utility PA. The Ruling suggests that the new definition will improve innovation, effectiveness, cost reduction, and/or cost-effectiveness. SoCalGas supports a change to the current third-party definition but does not believe the Ruling's proposed definition supports the stated objectives. The current administrative structure has proven immensely successful in the areas of program innovation, performance, and/or cost-effectiveness. The proposed definition also suggests moving program design away from the PA to the implementer, thus blurring the lines between administrator and implementer. As stated previously, SoCalGas supports and

³³ Section 399.4.d.2. "Authorize pay for performance programs that link incentives directly to measured energy savings. As part of pay for performance programs authorized by the commission, customers should be reasonably compensated for developing and implementing an energy efficiency plan, with a portion of their incentive reserved pending post project measurement results."

encourages third-party program design proposals for PA consideration, but not independent of the PA's program choice responsibilities. Finally, SoCalGas generally supports third-party program delivery but recognizes that under certain circumstances, the IOU may be in a better position to deliver specific program elements. For example, utility account representatives are instrumental in the delivery of key EE programs and are vital to EE providers who seek access to utility customers. Thus SoCalGas recommends that any revised definition allow for utility-delivered program elements.

In order to better capture all EE-funded activities performed by non-PA personnel, SoCalGas proposes to evolve the current third-party definition. PAs are currently required to list all competitively-bid third-party programs and to show the percentage of those program budgets to the overall portfolio budget as part of its funding application for Commission approval. Other program services delivered by third-parties do not fall within this current Commission definition. SoCalGas proposes a third-party definition that captures all activities conducted by non-PA personnel into two outsourcing categories: third-party program implementers (turnkey) and third-party service providers (implementation services). The two categories will maintain the necessary oversight of third-party program performance while capturing all activities provided by non-PA personnel. Most importantly, the revised third-party definition also maintains the appropriate segregation between program design and implementation, as noted above.

19. Is the general outline of the proposal in this ruling for third-party programs workable? Why or why not? Explain.

Response: The Ruling's proposal on third-party programs is not workable as it is inconsistent, as presented, with the PAs program choice role as part of the Commission's EE administrative structure. SoCalGas recommends a small but necessary change to the Ruling's proposals. Simply, third-parties are encouraged to propose program designs but only for PA consideration. This approach promotes continuous innovation, recognizes the PA responsibility to coordinate all programs within a portfolio, and affords adequate ratepayer protection against poor program design. See SoCalGas' response to Question 18.

20. Which third-party option (Option 1 or Option 2) do you prefer and why? Or would you prefer a different option entirely? If so, describe your preferred approach.

Response: The Ruling suggests two options in which to transition to the proposed statewide one-implementer model. SoCalGas does not support either Option 1 or 2, as presented in the Ruling. Instead, SoCalGas offers modifications and clarifications to Option 1 that: (1) retains the current administrative structure as it has proven to work and deliver on advancing California's energy policies over the past ten years; (2) eliminates the 20 percent third-party program requirement and replace with a simple straightforward third-party definition; (3) incorporates a requirement for more frequent procurement opportunities that encourages continued program innovation and expansion of the EE service provider community; and (4) recognizes the new sector and crosscutting program categories adopted as part of the EE rolling portfolio.

SoCalGas' modified Option 1 proposes to retain the Commission's current program choice and management responsibilities for the IOU administrators. Specifically, the IOUs continue to make their own implementer selections for all local and statewide solicitations. The proposed modified option enables the statewide program delivery by a third-party program implementer, as envisioned by the Ruling, under the following framework that:

- Designates one lead IOU to facilitate a statewide program solicitation with shared scoring responsibilities with the other impacted PAs;
- Maintains the individual IOU program choice in selecting statewide program implementer(s);
- Offers annual solicitations for statewide programs to promote healthy, innovative EE service provider community beginning after Commission adoption of a statewide solicitation (e.g., 2018 statewide program launch);
- Creates a standard statewide criterion for selecting program offerings for statewide deployment;
- Limits statewide implemented programs to upstream market channels;
- Maintains the current Commission-adopted statewide definition for downstream program offerings;
- Eliminates the 20% requirement and accounts for all non-PA provided program services;
- Incorporates the new sector and crosscutting program categories into the statewide solicitation process; and

- Allows for more than one implementer to deliver a statewide program and recognizes that certain program components (e.g., reach codes, customer technology demonstration projects, etc.) within a statewide program may be better served through local delivery mechanisms.

21. If you prefer Option 1 for third-party approaches, are there criteria that administrators should use for determining eligible program targets, sizes or budgets, or should this be determined in the course of formulating the Sector Business Plans?

Response: SoCalGas supports a modified Option 1 approach as detailed in its response to Question 20. Development of the business plans is necessarily independent of program implementer decisions. Simply put, the business plans create a link between the EE Strategic Plan and the implementation plan. The business plan offers a high level of abstraction on how PAs will achieve the goals including how each sector in the business plan advances the goals, strategies and objectives of the strategic plan and an identification of sector-specific program strategies. However, the business plan purposely does not address program implementation matters such as program implementer preferences as these tactical program matters will be addressed in the detailed implementation plans. SoCalGas requests the Commission not hinder the business planning process with directives regarding eligible program targets, sizes or budgets as these will be determined in the business planning process at the sector levels.

22. If you prefer Option 2 for third-party approaches, would you limit the initial focus to the large commercial sector? Why or why not? Or suggest a different focus and rationale for it.

Response: SoCalGas does not support Option 2. See SoCalGas' responses to Questions 20 and 21.

C. General Questions

23. Is the sector business plan process, with utility, program administrator, and stakeholder collaboration, sufficient to inform the development of program designs and solicitation documents for the proposals herein?

Response: The business planning process is an intermediate step that links the EE strategic plan with program implementation plans. It is too early in the business planning process to determine its effectiveness but SoCalGas is impressed by the commitment and contributions of many stakeholders thus far. SoCalGas is committed to a successful business planning process and will work with stakeholders on enhancements, as necessary.

24. Are there any other elements or guidance needed from the Commission to ensure that high quality, high-value programs can be effectively implemented across the IOU service areas?

Response: SoCalGas does not see the need for any further Commission guidance to continue to effectively implement statewide programs across IOU service territory. See SoCalGas' responses to Question 1 and 2.

25. Are there other criteria the Commission should use in determining which programs should be required to be competitively bid (e.g., because the IOU cost-effectiveness showings have dropped below a certain threshold, etc.)?

Response: In response to Question 13, SoCalGas offers proposed criteria in the selection of a single statewide implemented program candidate. A subset of these criteria could be used to determine whether a program offering should open to a competitive bid such as: (1) proven combinations of program strategy and market channel; and (2) demonstration of greater cost efficiency and program effectiveness than the current delivery mechanisms. Ultimately, the PA needs to determine program choice including those program best suited for competitive bid.

26. How might the CEC's statewide benchmarking and disclosure regulations and program activities for commercial and multi-family buildings be reflected in the statewide and third-party program approaches?

Response: Such programmatic specific items need to be addressed during the design of the sector programs as part of the business plans and the corresponding implementation plans. Who delivers and how it gets delivered can wait until such EE services are procured through a competitive procurement process in which such details will address the request for proposal (RFP) process by the PA.

27. If you suggest that some or all of the proposals in this ruling be implemented, what is the appropriate timeframe and transition process (if any), and why?

Response: Transition to any new direction should wait until the Commission adopts the proposed business plans. Midcourse adjustments caused by changes in regulatory policy and direction will frustrate the EE community, increase implementation costs, and possibly create confusion to the customers.

28. If you have alternative proposals for statewide and third-party aspects of the energy efficiency program portfolios, please describe them in detail.

Response: The Ruling suggests two options in which to transition to the proposed statewide one-implementer model. SoCalGas does not support either Option 1 or 2, as presented in the Ruling. Instead, SoCalGas offers modifications and clarifications to Option 1 that: (1) retains the current administrative structure as it has proven to work and deliver on advancing California's energy policies over the past ten years; (2) eliminates the 20 percent third-party program requirement and replace with a simple straightforward third-party definition; (3) incorporates a requirement for more frequent procurement opportunities that encourages continued program innovation and expansion of the EE service provider community; and (4) recognizes the new sector and crosscutting program categories adopted as part of the EE rolling portfolio.

SoCalGas' modified Option 1 proposes to retain the Commission's current program choice and management responsibilities for the IOU administrators. Specifically, the IOUs continue to make their own implementer selections for all local and statewide solicitations. The proposed modified option enables the statewide program delivery by a third-party program implementer, as envisioned by the Ruling, under the following framework that:

- Designates one lead IOU to facilitate a statewide program solicitation with shared scoring responsibilities with the other impacted PAs;
- Maintains the individual IOU program choice in selecting statewide program implementer(s);
- Offers annual solicitations for statewide programs to promote healthy, innovative EE service provider community beginning after Commission adoption of a statewide solicitation (e.g., 2018 statewide program launch);
- Creates a standard statewide criterion for selecting program offerings for statewide deployment;
- Limits statewide implemented programs to upstream market channels;
- Maintains the current Commission-adopted statewide definition for downstream program offerings;
- Eliminates the 20% requirement and accounts for all non-PA provided program services;
- Incorporates the new sector and crosscutting program categories into the statewide solicitation process; and

- Allows for more than one implementer to deliver a statewide program and recognizes that certain program components (e.g., reach codes, customer technology demonstration projects, etc.) within a statewide program may be better served through local delivery mechanisms.

Respectfully submitted,

By: /s/ Johnny J. Pong
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